



Market Briefing: March 2026

Key developments in the economy, housing and mortgage markets

**Rob Thomas, Principal Researcher,
Intermediary Mortgage Lenders Association (IMLA)**

Executive summary

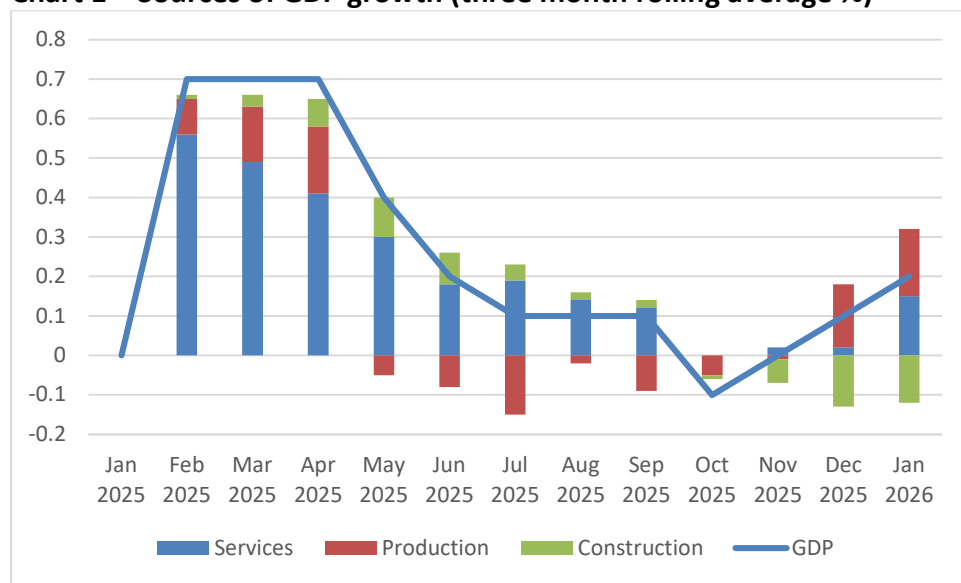
- The current military conflict between the US and Israel and Iran, which started at the end of February, has had a serious impact on financial markets around the globe. Oil prices spiked to a peak of nearly \$120 a barrel, 66% above their pre-conflict level, and remain highly volatile from day to day. Stock markets saw a broad sell-off with the FTSE100 falling some 9%, while UK interest rate swap rates reacted to the threat of high inflation and the impact this will have on Bank of England Bank Rate decisions.
- The 5-year swap rate increased from 3.8% on 27 February to 4.5% on the latest data, having been as high as 4.7%. 2-year swap prices showed an even larger rise, going from 3.6% to 4.5% at the end of March. This has led mortgage lenders to withdraw some 1,500 products, nearly 20% of the total, and raise mortgage rates, as the market tries to adjust to the new rate environment and uncertainty about the future direction of Bank Rate.
- The latest output data, for the three months to January, showed a slightly improved picture, with GDP up 0.2%, after a 0.1% rise the previous month. Manufacturing was particularly strong, up 1.5% over this period. In Q4, GDP was up 0.1% on the previous quarter and 1.0% on a year earlier.
- The labour market continues to send slightly mixed signals. Job vacancies have been broadly flat in recent months while unemployment rose 37,000 between the three months to October and the three months to January while the unemployment rate edged up to 5.2%. But payroll employment rose in the last three months by 32,000, although it remains some 50,000 below the level of a year earlier.
- CPI inflation was unchanged in February at 3.0% while core CPI (which excludes food and energy prices) rose slightly from 3.1% to 3.2%.
- Housing and mortgage market data were showing a more subdued picture before the conflict in the Middle East. Housing transactions in January were 3% down on the previous January while the number of mortgage approvals was down 13% and house purchase lending down 5% over the same period, although gross lending as a whole was up, due to strong remortgage volumes.

The economy

Output

After softening over much of 2025, GDP rebounded modestly in December and January, leaving it 0.2% higher in the three months to January. GDP was up 0.1% in the fourth quarter on the previous quarter and 1.0% up on Q4 2024.

Chart 1 – Sources of GDP growth (three month rolling average %)



Source: Office for National Statistics

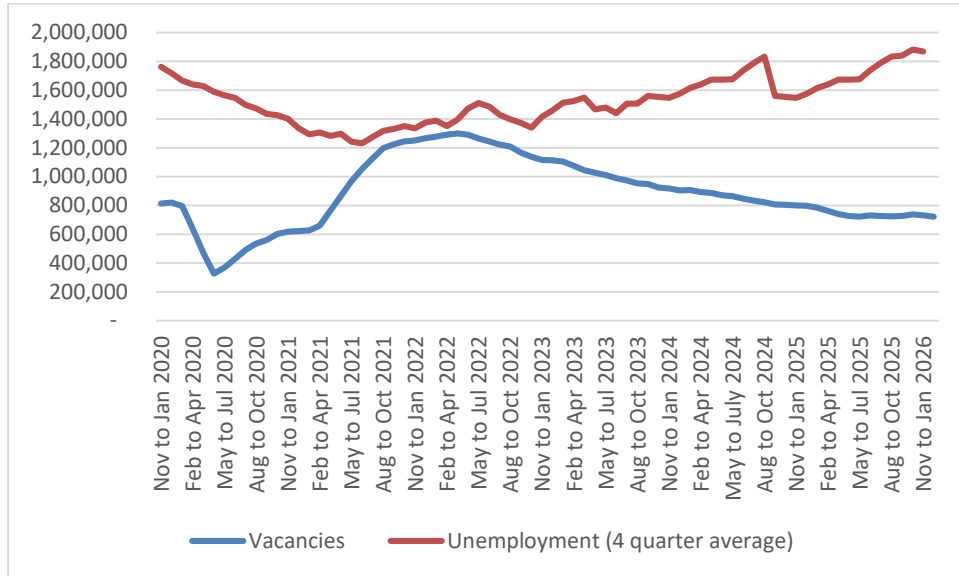
Manufacturing was particularly strong, with output up 1.5% in the three months to January, led by motor vehicles as production at Jaguar Land Rover returned to normal following the earlier cyber attack-induced shutdown. Construction activity in contrast weakened, falling 2.0% in the three months to January, despite some strength in repair and maintenance, as new work continued to contract.

Labour market

The labour market presents a somewhat mixed picture. Job vacancies have stabilised at around 720,000 (see Chart 2) but unemployment rose by 37,000 in the three months to January and the unemployment rate edged up to 5.2%, compared to 4.4% a year earlier.

Total employment has been flat over the past six months at around 34.3 million but the number of payroll employees shows a more complex picture with a 56,000 fall between August and November followed by a 32,000 rise since.

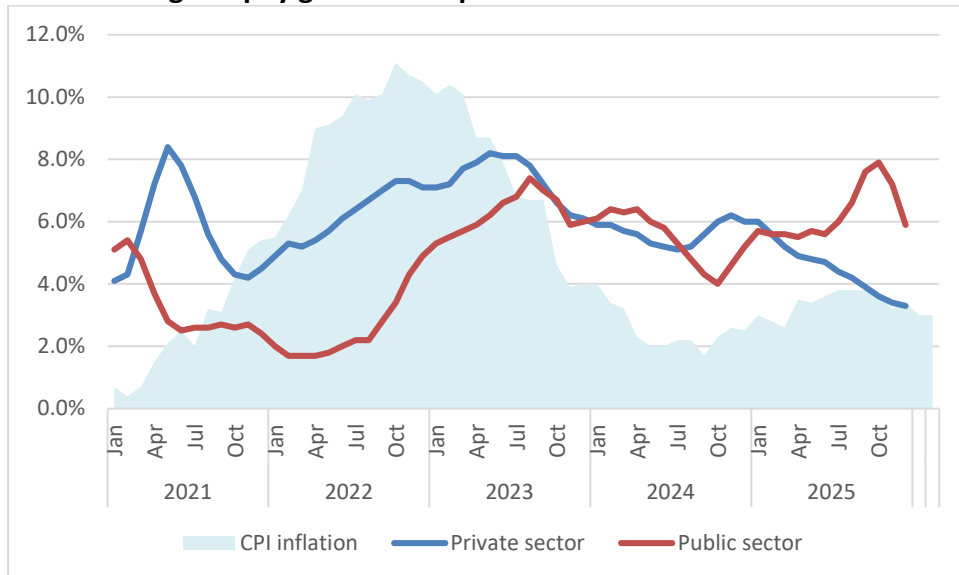
Chart 2 – Job vacancies and unemployment



Source: Office for National Statistics

Regular pay growth has eased sharply over recent months, falling to 3.8% in December from 4.8% six months earlier, with an even sharper decline in the private sector, leaving pay growth there at only 3.3% in December. As a result, wages in the private sector are no longer outstripping inflation. As Chart 3 shows, public sector wage growth is also now moderating rapidly, down to 5.9% in December, although it is still substantially above that of the private sector.

Chart 3 – Regular pay growth compared to CPI inflation



Source: Office for National Statistics

Inflation and interest rates

The war in the Middle East has had a substantial impact on commodity prices, with the S&P GSCI Global Commodities Price Index rising 22% since it began at the end of February (see Chart 4). Oil prices have been the main driver as oil and oil products

comprise more than a third of the index. Before the war, oil was trading around \$71 a barrel but reached as high as nearly \$120 and remains highly volatile from day to day, with the latest price a little over \$100 a barrel.

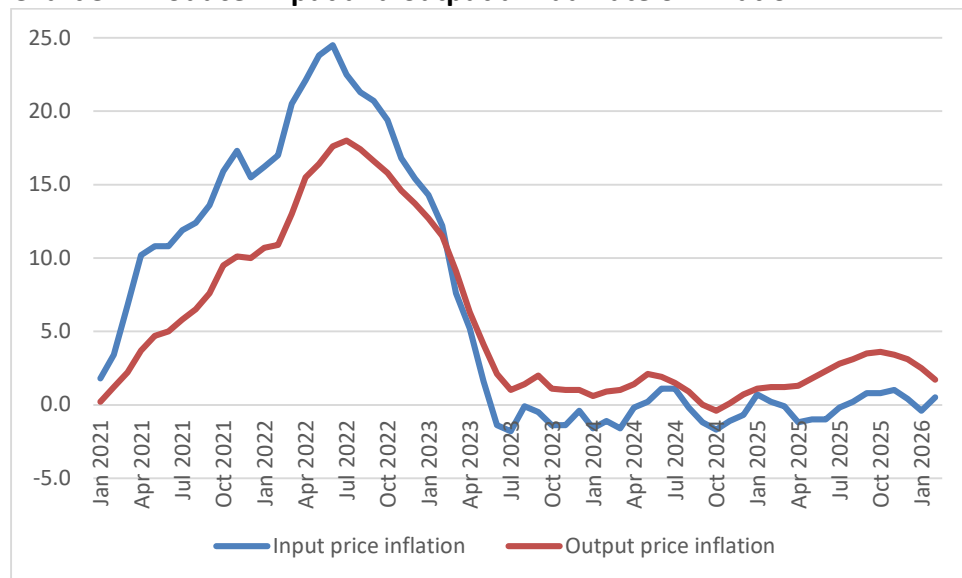
Chart 4 – S&P GSCI Global Commodities Price Index in Sterling



Source: S&P

The latest producer price data are for February, so they do not reflect the impact of higher oil prices. But, as Chart 5 shows, producer prices have risen somewhat faster over the past year, with input prices up 0.5% and output prices 1.7% higher.

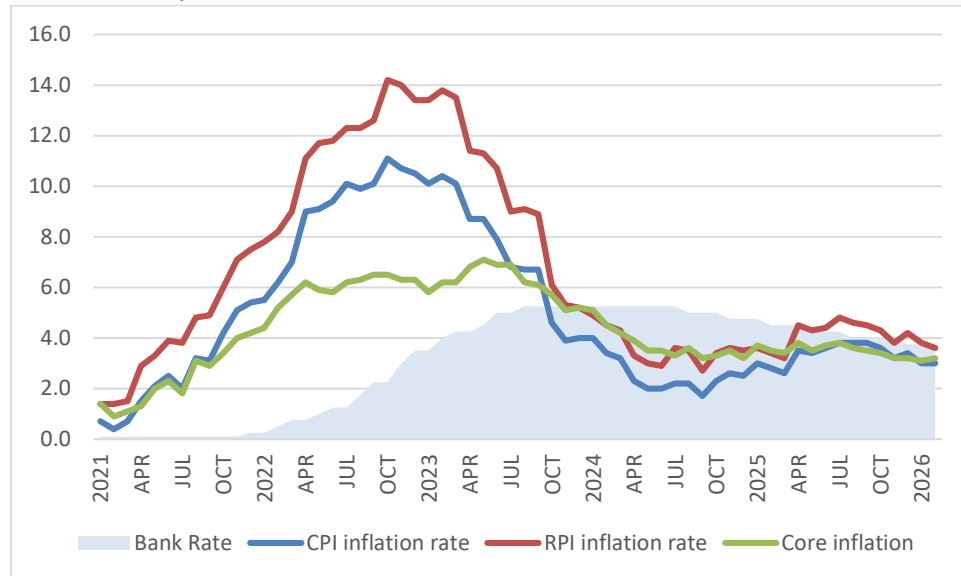
Chart 5 – Producer input and output annual rate of inflation



Source: Office for National Statistics

Consumer price inflation was stuck at 3.0% in February with higher clothing prices offsetting a fall in fuel costs. RPI inflation fell from 3.8% to 3.6% but core CPI increased from 3.1% to 3.2% (see Chart 6).

Chart 6 – CPI, RPI and core % annual inflation and Bank Rate



Source: Office for National Statistics

The war in the Middle East has had a dramatic impact on interest rate expectations in the UK. Before the military action started, markets were expecting further Bank of England rate cuts but expectation has now pivoted to three 0.25% rate increases, although a poll of economists has a majority expecting no change from 3.75%.

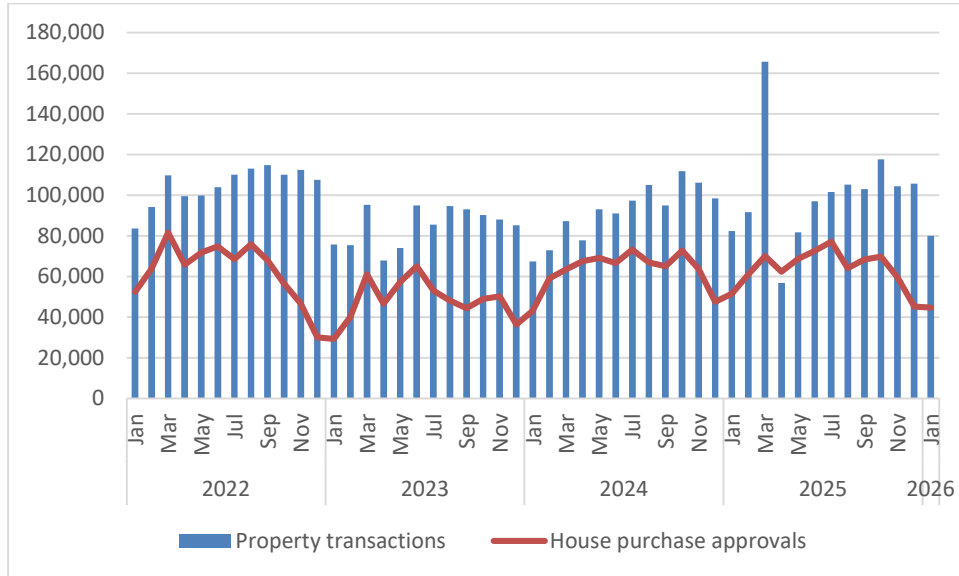
Because of market expectations of higher Bank Rate, the 5-year swap rate increased from 3.8% on 27 February to 4.5% on the latest data. 2-year swap prices showed an even larger rise, going from 3.6% to 4.5% at the end of March. This led to a repricing of mortgage products and the withdrawal of products at previous prices as brokers and customers rushed to find the cheapest remaining deals. If the Bank of England chooses to look through the inflationary effects of the war, in expectation that oil prices could unwind, Bank Rate may not rise by much, if at all, which should in turn cause swap rates to ease back.

Housing and mortgage markets

Activity

Housing transactions experienced the usual seasonal dip in January, but the numbers were slightly weaker than those going into 2025, being 3% below the previous January. The dip in house purchase approvals was a little more marked, with a fall of 13% in the number of approvals in January compared to a year earlier (see Chart 7).

Chart 7 – Housing transactions and mortgage approvals (monthly)

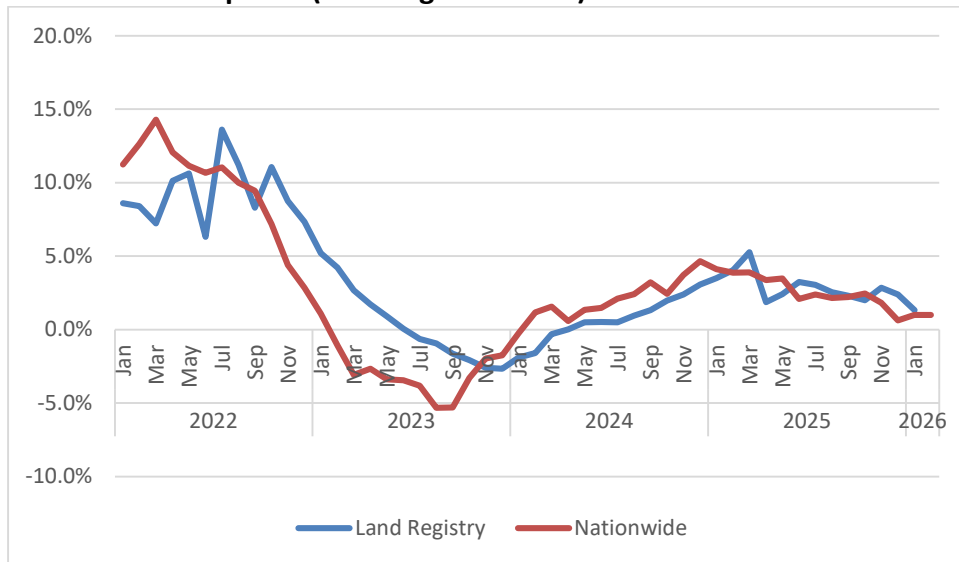


Source: HMRC, Bank of England

House prices and rents

The rate of house price inflation has eased moderately in recent months. In the year to February, the Nationwide index is up 1.0%, unchanged from January, but the Land Registry index saw house price growth easing from 2.4% in December to 1.3% in January (see Chart 8). On the Rightmove index of asking prices there was no growth in the year to February.

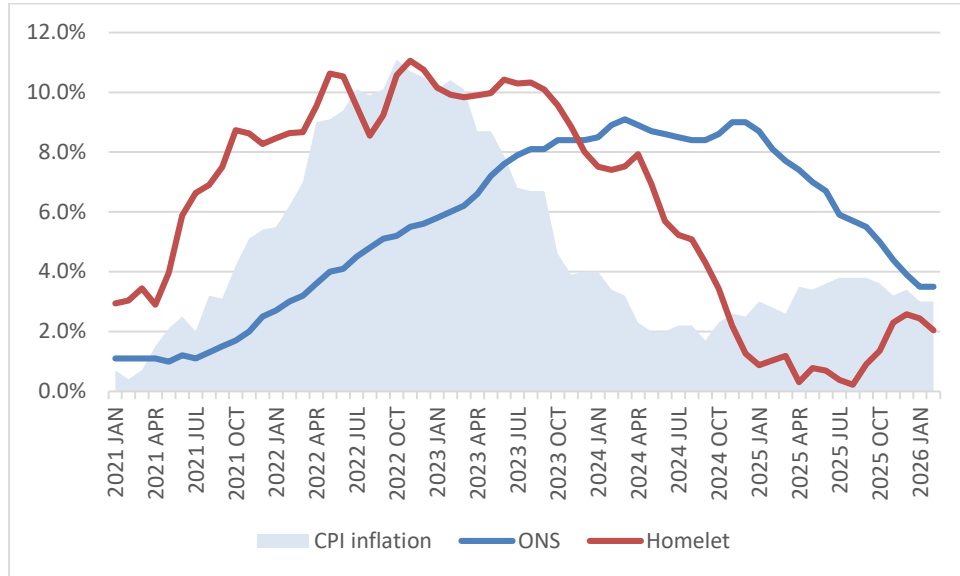
Chart 8 – House prices (annual growth rate)



Source: HM Land Registry, Nationwide Building Society

The annual rate of rental price inflation is slowing again according to the latest figures from Homelet, which showed growth at 2% in the year to February, down from 2.4% the previous month (see Chart 9). The ONS rental series is now showing only slightly faster growth at 3.5% in the year to February.

Chart 9 – Private rents (annual % growth)



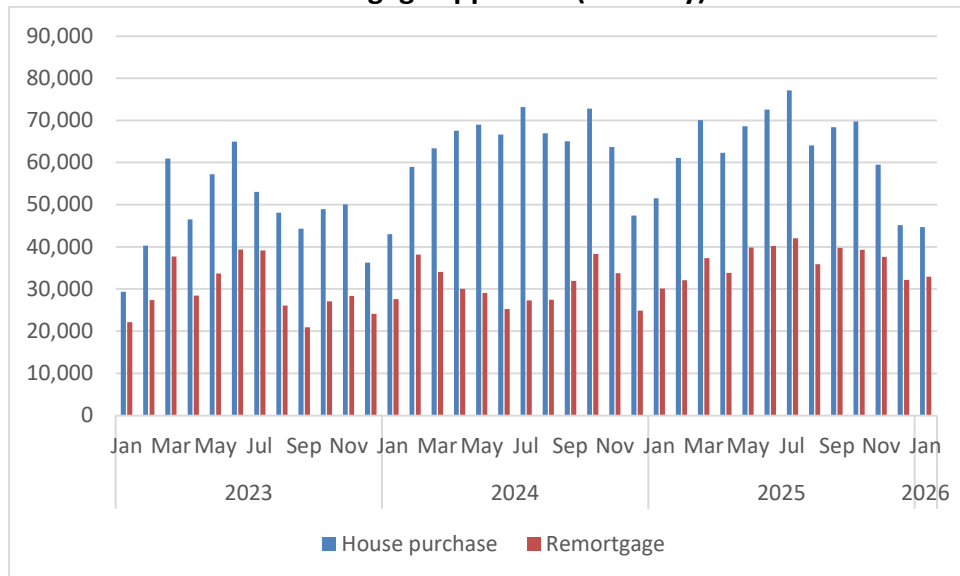
Source: Office for National Statistics, Homelet

Mortgage lending

House purchase approvals data showed the usual seasonal dip in December and January, but both months saw fewer mortgage approvals than the corresponding figures for the previous year. However, as Chart 10 shows, the figures remain well above those at the end of 2023 and start of 2024.

Remortgage approvals have been stronger. January’s 33,000 approvals were 9% above the figure 12 months earlier, leaving overall approvals roughly unchanged from a year earlier.

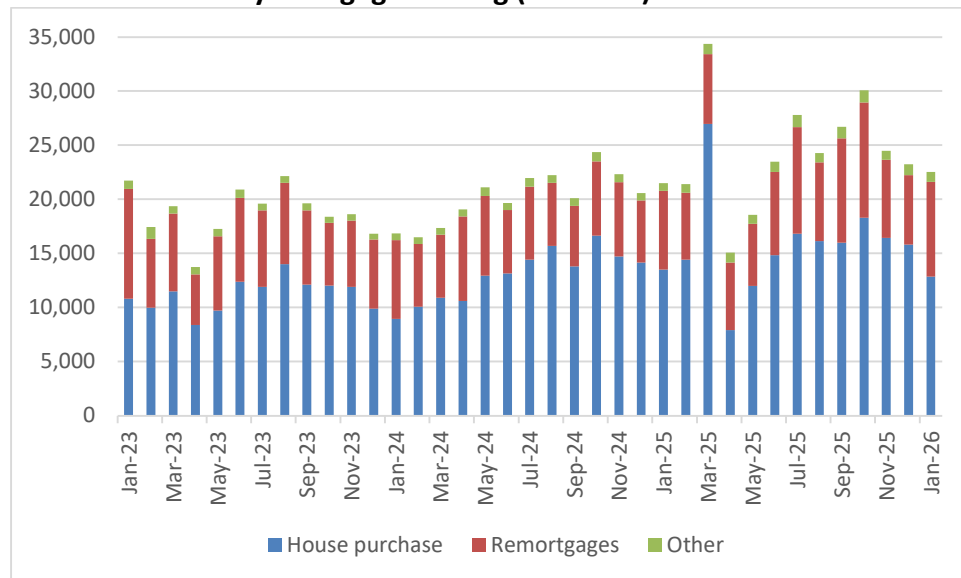
Chart 10 – Number of mortgage approvals (monthly)



Source: Bank of England

The value of house purchase lending shows a similar picture to approvals, with declines since the high number recorded in October (see Chart 11). This was partially offset by stronger remortgage volumes in January, which were 16% above the monthly average for 2025.

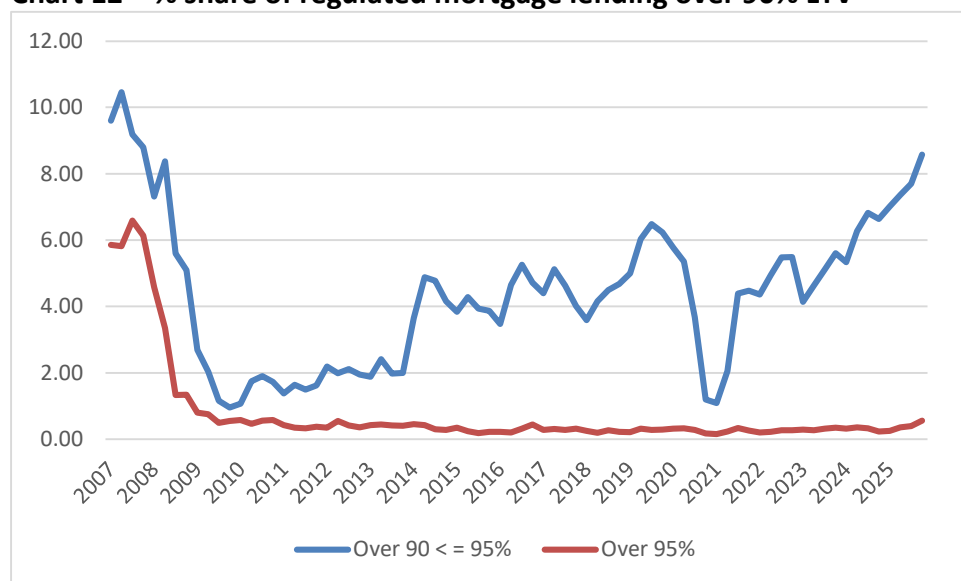
Chart 11 – Monthly mortgage lending (£ million)



Source: Bank of England

Lender risk appetite, as measured by the proportion of mortgage lending at an LTV above 90%, continued to increase in Q4 2025. 9.1% of all regulated loans were above 90% LTV, the highest total since 2008. As can be seen from Chart 12, there was even a marked rise in those above 95% LTV, but at 0.6% this remains a fraction of this category of lending before the financial crisis.

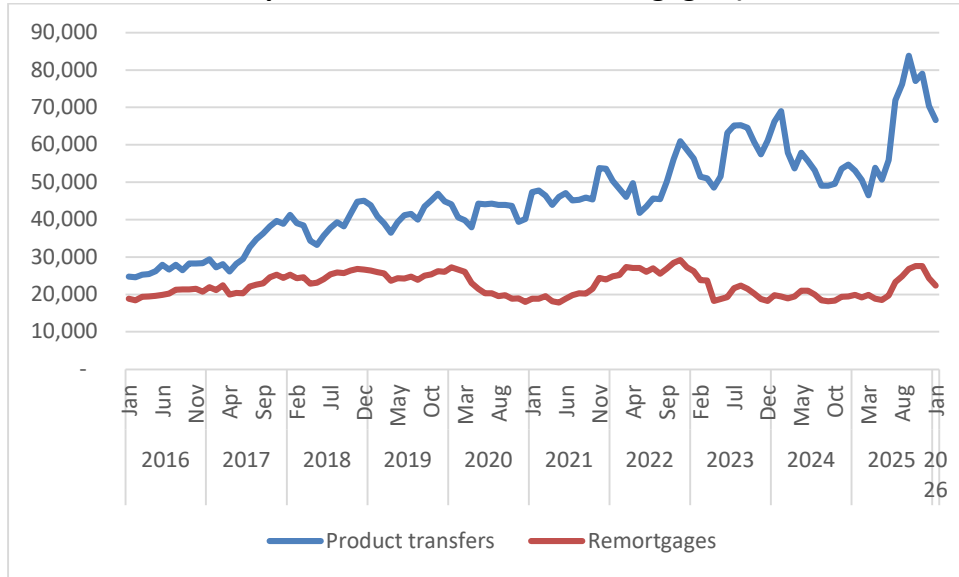
Chart 12 – % share of regulated mortgage lending over 90% LTV



Source: Financial Conduct Authority

Product transfers

Chart 13 – Value of product transfers and remortgages (£m 3 month rolling average)

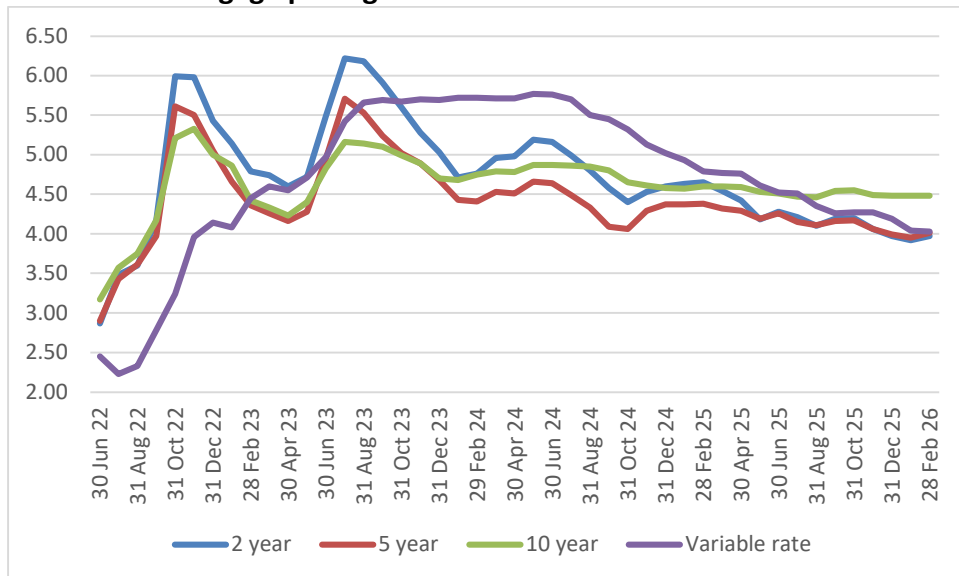


Source: UK Finance, Bank of England

Both the number and value of product transfers has been unusually volatile in recent months but, as Chart 13 shows, the trend has been down since September. However, January saw £28.1 billion of product transfers, 64% above December’s total and 31% above the average monthly figure for 2025. Remortgage volumes have been much more consistent from month to month but have also seen a decline on a three-month comparison, following higher figures between September and November.

Mortgage pricing and products

Chart 14 – Mortgage pricing for 75% LTV loans

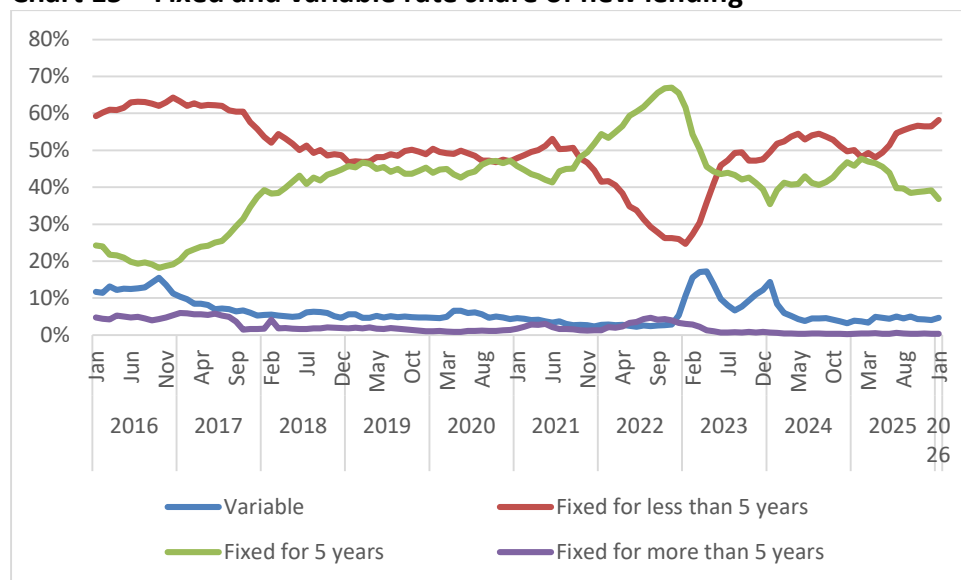


Source: Bank of England

Bank of England data on mortgage pricing does not reflect the surge seen since the end of February. But on 25 March Moneyfacts reported that its average mortgage rate had reached 5.5%, up from 4.89% on 2 March, the highest rate since August 2024. However, it remains well below the peak of 6.52% reached at the top of the last interest rate cycle in August 2023.

Higher mortgage rates reflect the sharp increase in interest rate swap rates since the end of February. The 5-year swap rate increased from 3.8% on 27 February to 4.5% on the latest data, having been as high as 4.7%. 2-year swap prices showed an even larger rise, going from 3.6% to 4.5% at the end of March, perhaps reflecting the market’s view that the war in the Middle East is unlikely to be prolonged and that its impact is more likely to be concentrated in the shorter term.

Chart 15 – Fixed and variable rate share of new lending

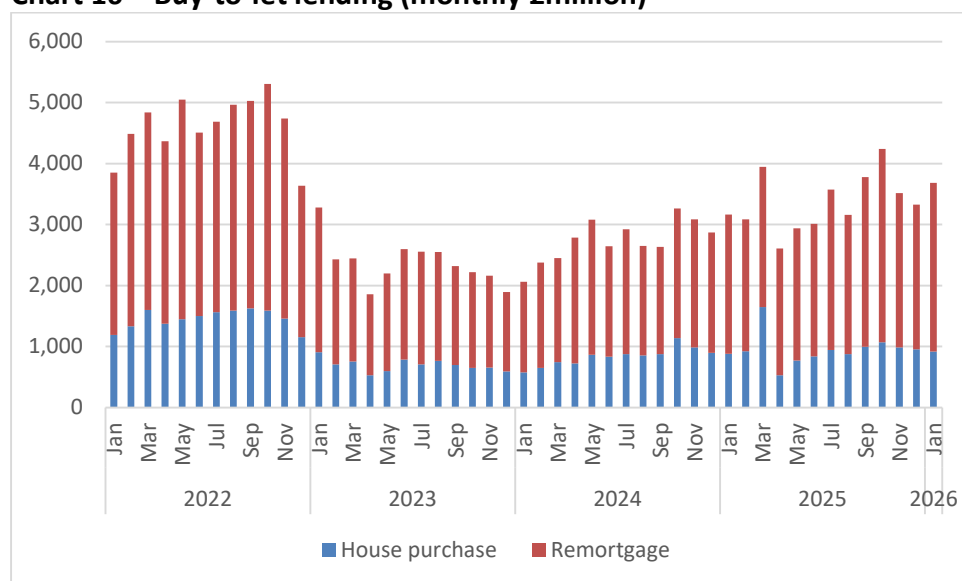


Source: UK Finance

It is, of course, too early for the data to reflect the impact of the rising cost of fixed-rate mortgages on the consumer decision on what kind of rate profile to take. Variable rate mortgages comprised only 5% of the total in January (see Chart 15), but if, as seems likely, the Bank of England is cautious about raising Bank Rate, there may be a shift towards variable rate loans in the coming months.

Buy-to-let market

Chart 16 – Buy-to-let lending (monthly £million)



Source: UK Finance

Moneyfacts report that average 5-year buy-to-let mortgage rates rose to 5.63%, their highest level for 2 years while 2-year fixes rose in price to an average of 5.29%. It also reports a 1,300 decline in the number of buy-to-let mortgage deals available since the start of the war to 4,300 by 26 March.

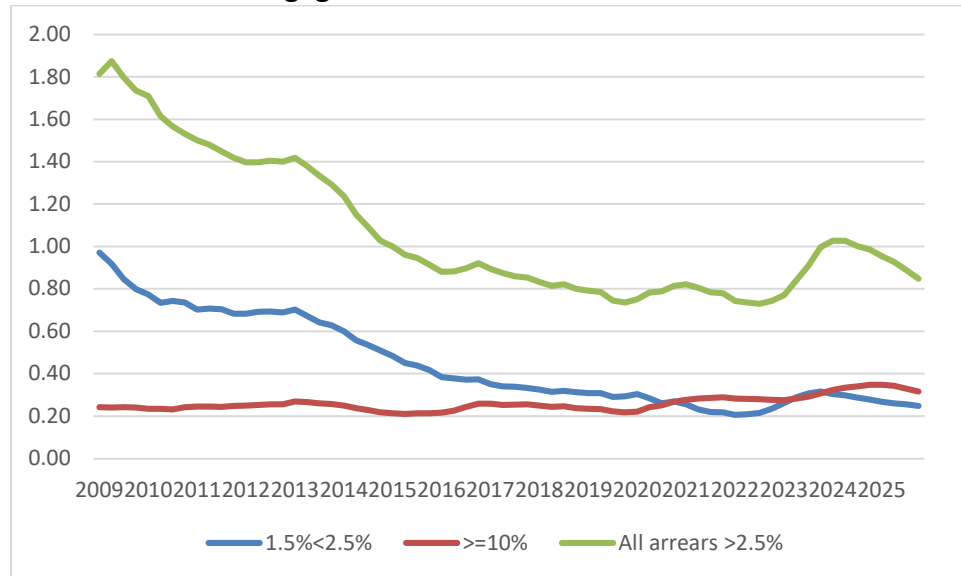
If they are sustained, these higher rates will renew concerns about affordability for landlords with higher gearing. When mortgage rates rose sharply after the mini-budget in September 2022, some buy-to-let borrowers found themselves unable to remortgage because they failed to meet affordability criteria. However, rates have not reached their last cyclical peak and, with a rapidly evolving situation in the Middle East, it is too early to say that we face a prolonged period of elevated interest rates.

Arrears and possessions

In the fourth quarter of 2025, mortgage arrears fell in all brackets of severity from 1.5%-2.5% of the mortgage balance to 10% or more, continuing the trend of downward arrears of recent years (see Chart 17). All arrears over 2.5% of the loan balance fell from 0.89% to 0.85% while arrears of 10% or more fell from 0.33% to 0.32%.

In Q4, arrears fell more rapidly amongst owner-occupiers, with those exceeding 2.5% of the loan balance going from 0.97% in Q3 to 0.92%. In buy-to-let, the fall was more muted but the percentage of borrowers with this level of arrears was still significantly lower in Q4 at 0.5%.

Chart 17 – % of mortgages in arrears of 2.5%+ of loan balance



Source: UK Finance

The number of properties taken into possession fell in Q4 to 1,980. This was the first quarterly fall in the number of possessions since 2023. Possessions were down in both in the owner-occupied and buy-to-let sectors.

Prospects

In our December Market Briefing we said that “the improved affordability that lower mortgage rates have brought coupled with modest lending deregulation has made the housing and mortgage markets a bright spot in 2025 and, barring any unexpected economic shocks, this looks set to continue into 2026 and perhaps beyond.”

Once again, since the end of February, the world is experiencing just such an unexpected economic shock as Iran’s ability to control shipping through the Strait of Hormuz and damage energy production facilities in the Persian Gulf has sent oil prices soaring. There is no certainty as to how events in the Middle East will play out and this makes forecasting the likely impact particularly challenging.

What we can say about the impact on the UK housing and mortgage markets is that, while a spike in swap rates has caused short-term dislocation, it is the path of Bank Rate over the next few months that will set the tone for where market rates are heading and it seems unlikely that the Bank of England will react with sharp rate rises, or even perhaps any rises when the situation is so fluid.

Through the shocks we have seen from Covid, the war in Ukraine and the Kwasi Kwarteng mini-budget of September 2022, the Bank of England Monetary Policy Committee has consistently taken a dovish stance, effectively prioritising short-term growth over meeting the inflation target of keeping CPI inflation to no more than 2%. There seems no reason to expect a sudden change in this approach, and a

measured reaction from the Bank is likely to calm the markets, offering the prospect that swap rates could retreat barring a worsening of the oil price shock.

